

EXECUTIVE SUMMARY

The next few years will be even more challenging for the Idaho economy than had been previously thought. The most notable change has to do with employment. In July 2008 DFM forecast Idaho nonfarm employment would decrease at a 0.4% annual rate in the second quarter of this year but rise at the same pace in the following quarter. Employment actually declined at a 1.7% annual clip in the second quarter and fell another 1.1% in the third quarter. As a result of these consecutive declines, Idaho nonfarm employment was approximately 4,100 lower than expected in this year's third quarter. The lower starting point for employment, along with the slower growing U.S. economy, paints a picture of disappointing future growth. Idaho nonfarm employment is expected to advance an average of 0.5% annually through 2011. Idaho's employment situation is weakest in 2008 and 2009. In fact, employment is expected to shrink in both of these years, averaging just 642,807 jobs next year. The year after next is expected to be a transition year, with Idaho growing slowly as it begins to shake off the effects of the national recession. Idaho nonfarm employment is forecast to rise 1.4% in 2010. This pace is faster than the national growth rate, but it is slower than the 1.9% rate previously forecast for Idaho. Employment growth does improve to 2.9% in 2011, but this is barely above the 2.8% predicted in July 2008. As a result, in 2011 there are 670,812 jobs, which is about 20,000 lower than in the previous forecast. Like employment, Idaho personal income can also be divided into two distinct periods based on growth. Unlike employment, however, Idaho nominal personal income does not decline. Specifically, it advances 3.4% in 2008 and 3.1% in 2009. The pace quickens to an average of about 4.5% per year in 2010 and 2011. Adjusting for inflation, Idaho personal income is flat in 2008 then grows 1.6% in 2009, 2.3% in 2010, and 3.9% in 2011. Despite accelerating growth over the forecast period, Idaho real personal income fails to match the previous forecast's performance, and it is about \$600 million lower in 2011 compared to the July 2008 projection.

The next two years will be challenging for the U.S. economy. Indeed, Global Insight believes the economy already slipped into a recession in this year's third quarter. The current forecast assumes the recession lasts for three months, with a peak-to-trough decline of 0.6%. The unemployment rate is expected to rise to 7.5%. In summary, this recession is likely to be more like the 1981-82 recession than the mild 1990-91 and 2001 downturns. The economic evidence for a recession is hard to ignore. Most notably, in its latest GDP report, the U.S. Department of Commerce's Bureau of Economic Analysis (BEA) showed real output shrank 0.3% in the third quarter of 2008—its worst showing since the third quarter of 2001. Part of the disappointing GDP estimate reflects retrenching consumers. The BEA shows consumer spending fell 3.1% in the third quarter—its biggest dip since 1990. Stock markets around the world plunged this fall as the flow of funds through the financial system has, in effect, seized up. The seizing up of credit is working its way into the broader economy, making it harder for consumers, businesses, and state and local governments to obtain credit. Thus they have cut back on spending, investment, and hiring. Central banks and governments are trying to stem the panic with every tool possible. The Federal Reserve lowered its federal funds rate to 1.0% on October 29, 2008 and is now lending directly to nonfinancial corporations. The U.S. Treasury has been given unprecedented powers. Congress passed and the President signed into law the \$700-billion Troubled Asset Relief Program (TARP). Real GDP is expected to start growing again in the second quarter of 2009. It is forecast to grow slowly at first, remaining under 3.0% growth until the second quarter of 2010. Other closely watched economic measures will take longer to recover. Nonfarm employment will eke out its first gain in the last quarter of 2009, and not grow faster than 1.5% until the beginning of 2011. Real personal income is forecast to drop below 3.0% growth in the second half of 2008 and remain there until late 2009. The economy's stride should pick up in 2011. In that year real GDP expands 3.1%, employment grows 1.7%, and real personal income increases 2.9%.

IDAHO ECONOMIC FORECAST
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	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
U.S. GDP (BILLIONS)												
Current \$	9,817	10,128	10,470	10,961	11,686	12,422	13,178	13,808	14,352	14,655	15,240	15,983
% Ch	5.9%	3.2%	3.4%	4.7%	6.6%	6.3%	6.1%	4.8%	3.9%	2.1%	4.0%	4.9%
2000 Chain-Weighted	9,817	9,891	10,049	10,301	10,676	10,990	11,295	11,524	11,694	11,717	11,997	12,369
% Ch	3.7%	0.8%	1.6%	2.5%	3.6%	2.9%	2.8%	2.0%	1.5%	0.2%	2.4%	3.1%
PERSONAL INCOME - CURR \$												
Idaho (Millions)	31,290	33,054	33,849	34,816	38,079	40,853	44,389	47,536	49,176	50,677	52,760	55,947
% Ch	7.6%	5.6%	2.4%	2.9%	9.4%	7.3%	8.7%	7.1%	3.4%	3.1%	4.1%	6.0%
Idaho Nonfarm (Millions)	30,448	32,039	32,921	34,099	37,100	39,993	43,748	46,497	48,279	49,550	51,604	54,751
% Ch	8.5%	5.2%	2.8%	3.6%	8.8%	7.8%	9.4%	6.3%	3.8%	2.6%	4.1%	6.1%
U.S. (Billions)	8,430	8,724	8,882	9,164	9,727	10,270	10,994	11,663	12,174	12,503	12,966	13,624
% Ch	8.0%	3.5%	1.8%	3.2%	6.2%	5.6%	7.1%	6.1%	4.4%	2.7%	3.7%	5.1%
PERSONAL INCOME - 2000 \$												
Idaho (Millions)	31,289	32,376	32,690	32,970	35,127	36,608	38,705	40,400	40,304	40,948	41,900	43,532
% Ch	5.0%	3.5%	1.0%	0.9%	6.5%	4.2%	5.7%	4.4%	-0.2%	1.6%	2.3%	3.9%
Idaho Nonfarm (Millions)	30,447	31,382	31,795	32,290	34,223	35,838	38,147	39,517	39,570	40,037	40,983	42,601
% Ch	5.9%	3.1%	1.3%	1.6%	6.0%	4.7%	6.4%	3.6%	0.1%	1.2%	2.4%	3.9%
U.S. (Billions)	8,429	8,545	8,578	8,678	8,973	9,203	9,587	9,912	9,978	10,103	10,298	10,601
% Ch	5.4%	1.4%	0.4%	1.2%	3.4%	2.6%	4.2%	3.4%	0.7%	1.3%	1.9%	2.9%
HOUSING STARTS												
Idaho	11,500	12,207	13,230	16,393	18,668	23,371	19,439	14,254	9,305	9,339	10,667	13,349
% Ch	11.0%	6.1%	8.4%	23.9%	13.9%	25.2%	-16.8%	-26.7%	-34.7%	0.4%	14.2%	25.1%
U.S. (Millions)	1,573	1,601	1,710	1,854	1,950	2,073	1,812	1,341	0,941	0,796	1,099	1,448
% Ch	-4.5%	1.8%	6.8%	8.4%	5.2%	6.3%	-12.6%	-26.0%	-29.8%	-15.4%	38.1%	31.7%
TOTAL NONFARM EMPLOYMENT												
Idaho	558,583	568,035	568,047	572,552	588,072	611,728	638,915	656,300	651,693	642,807	651,780	670,812
% Ch	3.8%	1.7%	0.0%	0.8%	2.7%	4.0%	4.4%	2.7%	-0.7%	-1.4%	1.4%	2.9%
U.S. (Thousands)	131,794	131,830	130,340	129,996	131,419	133,695	136,092	137,618	137,496	136,102	137,150	139,455
% Ch	2.2%	0.0%	-1.1%	-0.3%	1.1%	1.7%	1.8%	1.1%	-0.1%	-1.0%	0.8%	1.7%
SELECTED INTEREST RATES												
Federal Funds	6.2%	3.9%	1.7%	1.1%	1.3%	3.2%	5.0%	5.0%	2.2%	1.2%	2.9%	4.6%
Bank Prime	9.2%	6.9%	4.7%	4.1%	4.3%	6.2%	8.0%	8.1%	5.2%	4.2%	5.9%	7.6%
Existing Home Mortgage	8.0%	7.0%	6.5%	5.7%	5.7%	5.9%	6.6%	6.5%	6.1%	5.7%	6.5%	7.2%
INFLATION												
GDP Price Deflator	2.2%	2.4%	1.7%	2.1%	2.9%	3.3%	3.2%	2.7%	2.5%	1.9%	1.6%	1.7%
Personal Cons Deflator	2.5%	2.1%	1.4%	2.0%	2.6%	2.9%	2.8%	2.6%	3.7%	1.4%	1.7%	2.1%
Consumer Price Index	3.4%	2.8%	1.6%	2.3%	2.7%	3.4%	3.2%	2.9%	4.3%	1.3%	2.1%	2.4%

National Variables Forecast by GLOBAL INSIGHT
Forecast Begins the THIRD Quarter of 2008

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	2008				2009				2010			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
U.S. GDP (BILLIONS)												
Current \$	14,151	14,295	14,472	14,491	14,524	14,595	14,686	14,816	14,978	15,153	15,334	15,494
% Ch	3.5%	4.1%	5.1%	0.5%	0.9%	2.0%	2.5%	3.6%	4.4%	4.8%	4.9%	4.2%
2000 Chain-Weighted	11,646	11,727	11,723	11,679	11,659	11,694	11,728	11,788	11,862	11,954	12,048	12,123
% Ch	0.9%	2.8%	-0.2%	-1.5%	-0.7%	1.2%	1.1%	2.1%	2.5%	3.1%	3.2%	2.5%
PERSONAL INCOME - CURR \$												
Idaho (Millions)	48,280	49,055	49,617	49,751	50,163	50,494	50,811	51,240	51,791	52,404	53,072	53,772
% Ch	-2.0%	6.6%	4.7%	1.1%	3.4%	2.7%	2.5%	3.4%	4.4%	4.8%	5.2%	5.4%
Idaho Nonfarm (Millions)	47,415	48,358	48,596	48,748	49,065	49,344	49,687	50,104	50,638	51,259	51,914	52,606
% Ch	-0.4%	8.2%	2.0%	1.3%	2.6%	2.3%	2.8%	3.4%	4.3%	5.0%	5.2%	5.4%
U.S. (Billions)	11,961	12,189	12,254	12,292	12,381	12,454	12,539	12,637	12,756	12,890	13,036	13,184
% Ch	3.0%	7.9%	2.2%	1.3%	2.9%	2.4%	2.8%	3.2%	3.8%	4.3%	4.6%	4.6%
PERSONAL INCOME - 2000 \$												
Idaho (Millions)	40,139	40,360	40,270	40,446	40,734	40,897	40,990	41,169	41,420	41,727	42,059	42,396
% Ch	-5.4%	2.2%	-0.9%	1.8%	2.9%	1.6%	0.9%	1.8%	2.5%	3.0%	3.2%	3.2%
Idaho Nonfarm (Millions)	39,420	39,786	39,442	39,631	39,843	39,966	40,084	40,257	40,498	40,815	41,141	41,476
% Ch	-3.9%	3.8%	-3.4%	1.9%	2.2%	1.2%	1.2%	1.7%	2.4%	3.2%	3.2%	3.3%
U.S. (Billions)	9,944	10,028	9,946	9,993	10,054	10,087	10,116	10,154	10,202	10,264	10,331	10,394
% Ch	-0.6%	3.5%	-3.3%	1.9%	2.4%	1.3%	1.1%	1.5%	1.9%	2.5%	2.6%	2.5%
HOUSING STARTS												
Idaho	9,125	9,295	9,387	9,413	9,033	9,188	9,870	9,265	10,232	10,599	10,575	11,265
% Ch	-56.8%	7.7%	4.0%	1.1%	-15.2%	7.0%	33.2%	-22.4%	48.7%	15.1%	-0.9%	28.8%
U.S. (Millions)	1,053	1,025	0,902	0,783	0,743	0,738	0,819	0,884	0,961	1,051	1,135	1,251
% Ch	-30.0%	-10.2%	-40.1%	-43.2%	-18.9%	-2.6%	51.2%	36.3%	39.4%	42.8%	36.0%	47.7%
TOTAL NONFARM EMPLOYMENT												
Idaho	655,670	652,805	651,078	647,218	644,245	642,189	641,744	643,049	646,530	649,711	653,351	657,529
% Ch	-1.8%	-1.7%	-1.1%	-2.4%	-1.8%	-1.3%	-0.3%	0.8%	2.2%	2.0%	2.3%	2.6%
U.S. (Thousands)	137,917	137,699	137,448	136,919	136,436	136,019	135,899	136,054	136,405	136,873	137,398	137,924
% Ch	-0.3%	-0.6%	-0.7%	-1.5%	-1.4%	-1.2%	-0.4%	0.5%	1.0%	1.4%	1.5%	1.5%
SELECTED INTEREST RATES												
Federal Funds	3.2%	2.1%	2.0%	1.6%	1.1%	1.0%	1.2%	1.7%	2.2%	2.7%	3.2%	3.7%
Bank Prime	6.2%	5.1%	5.0%	4.6%	4.1%	4.0%	4.2%	4.7%	5.2%	5.7%	6.2%	6.7%
Existing Home Mortgage	6.0%	6.1%	6.4%	5.9%	5.6%	5.6%	5.8%	5.9%	6.1%	6.3%	6.6%	6.8%
INFLATION												
GDP Price Deflator	2.6%	1.1%	5.0%	2.0%	1.6%	0.7%	1.4%	1.5%	1.8%	1.6%	1.6%	1.7%
Personal Cons Deflator	3.6%	4.3%	5.6%	-0.7%	0.5%	1.0%	1.6%	1.6%	1.9%	1.8%	1.9%	2.1%
Consumer Price Index	4.3%	5.0%	7.0%	-1.9%	0.0%	0.7%	2.2%	2.1%	2.1%	2.1%	2.2%	2.6%

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